

# **CHAPTER 10**

## **LOAN SERVICING**

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#### **SERVICING REGULAR BUSINESS LOANS**

After a loan is fully disbursed, it is classified in “Regular” servicing status. SBA’s SOP 50-50-4(A) is the governing policy document for all loans classified in “Regular” servicing.

A servicing action is any request that changes the existing terms or conditions on a loan as stated in the SBA Authorization and Loan Agreement.

#### **All actions taken prior to full disbursement require SBA pre-approval.**

**When a 7(a) loan is “undisbursed” or “partially disbursed”**, servicing requests must be directed to the Loan Officer that processed the original loan application. If the application was processed by the North Florida District Office, you will contact our office as listed below:

U.S. Small Business Administration  
North Florida District Office  
7825 Baymeadows Way, Suite 100-B  
Jacksonville, Florida 32256-7504

Phone: 904-443-1900  
Fax: 904-443-1980

**After a 7(a) loan is “fully disbursed” and the file has been forwarded to the servicing center,** servicing requests must be directed to that office.

**After a LowDoc loan is “approved”**, servicing requests should be directed to the SBA servicing center listed below:

U.S. Small Business Administration  
Commercial Loan Servicing Center  
2120 Riverfront Drive, Suite 100  
Little Rock, Arkansas 72202

Toll Free: 800-644-8564  
Phone: 501-324-5871  
Fax: 501-324-5199

## **LENDER SERVICING RESPONSIBILITIES**

After an SBA guaranteed loan is fully disbursed, loan servicing is the primary responsibility of the lender. Lenders are expected to use the same degree of prudence in servicing their SBA loans as they apply to their regular commercial loans.

Appendix 10-A contains the "Loan Servicing Request Guidelines for the Commercial Loan Servicing Centers" Manual. This Manual includes information on procedures and requirements for Collateral Actions, Deferments, Extensions of Maturity, Guarantor Actions (substitutions, releases), Loan Assumptions, Unilateral Authority to Modify Loan Terms (commonly referred to as SBA's 20% rule), Actions Requiring SBA Prior Approval, Troubled or Delinquent Loans, and Situations Placing Loans "In-Liquidation" Status.

## **SERVICING CONCERNS**

**Initial Interest Rate On Variable Rate Loans:** Every SBA Authorization & Loan Agreement establishes the initial interest rate. SBA establishes the initial interest rate at the time the application is received from the lender. It is based on the prime rate in effect at that time. Once that rate is established, it cannot be changed prior to closing regardless of the prime rate in effect. **The loan MUST be closed at the initial interest rate stated in the Authorization & Loan Agreement.** After the initial disbursement, the Lender may change the interest rate on the first calendar day of the month following the date of the initial disbursement. All other rate changes **MUST be made on the first calendar day of the adjustment interval as stated in the Note** (i.e. month, quarter, etc.) following the rate change as reported in the Wall Street Journal.

**Interest Rate Basis:** An **interest rate basis must be** established before the date of first disbursement and must be disclosed on the first SBA Form 1050, Settlement Sheet. SBA policy permits **30/360** (every month is treated as if it has 30 days regardless of the number of days in that month), **actual/360** or **actual/365**.

**Reamortization Of Payments:** When the prime rate changes and a change in the interest rate is made on a variable rate loan, the loan balance may be reamortized for the remaining number of months on the Note. The lender must notify the Borrower, in writing, of the new payment amount. This will prevent the possibility of a balloon payment at maturity (SBA policy does not permit balloon payments).

**Payment Application:** Payments **MUST** be applied.....**first to interest, up to the date payment is received**; then, the balance (if any) to principal. This is true of all SBA Notes regardless of the payment type (i.e. principal & interest, principal + interest, etc.). Payments cannot be applied based upon an amortization or other type-billing schedule.

## **SERVICE CHARGES/FEES**

**50 Basis Point Fee:** Lenders are required to pay SBA ½ of 1% of the outstanding (guaranteed portion) of the principal balance on all loans approved after October 12, 1995. The fee is paid monthly only when interest has been collected from the Borrower during that month. This fee **CANNOT** be charged to the Borrower.

**Late Payment Fee:** Lenders are permitted to charge a late payment fee not to exceed 5% of the regular loan payment if a payment is received more than 10 days late. The late fee is optional and may be less than 5%. It is the Lender's responsibility to collect the late fee in addition to the regular scheduled payment. The late fee is the property of the Lender and does not have to be shared with the investor if the loan has been sold in the secondary market. Late fees **MUST NOT** be added to the principal balance of the loan under any circumstances. They must not be added to the transcript of account submitted to SBA when Lender requests SBA purchase the guaranty nor can they be deducted from liquidation proceeds. SBA will not be responsible for paying late fees at any time under any circumstance. If SBA purchases a loan guaranty, SBA will permit the Lender to collect late charges from the borrower which were owed at the time of purchase, but only after SBA has been paid in full.

**Out-Of-Pocket Expenses:** The Lender may collect necessary out-of-pocket expenses such as filing or recording fees from the Borrower.

### **Prepayment Penalties:**

**For loans received by the lender on or PRIOR to December 22, 2000,** the regulations state that a Lender may not charge a *penalty* for full or partial prepayment of a loan. However, as stated in the Note, a Lender may charge a *fee*, equivalent to 3 weeks interest on the unpaid principal balance, IF the borrower fails to give Lender written notification of their intent to prepay at least 3 weeks prior to the anticipated prepayment date. If the loan has been sold in the secondary market, the investor generally requires either the 3-week prepayment notice or the 3-week interest fee. If the loan has not been sold, whether to require the prepayment notice or 3 weeks prepayment interest fee is at the Lender's discretion. SBA does not require any notice or fee for prepayment of those guaranteed loans.

**For 7(a) and 504 loan programs, loans received by the lender ON OR AFTER December 22, 2000,** a new prepayment charge, paid by the borrower to SBA ("subsidy recoupment fee"), has been added for those loans that meet the following criteria:

- (a) have a maturity of 15 years or more where the borrower is prepaying voluntarily;
- (b) the prepayment amount exceeds 25 percent of the outstanding balance of the loan; AND
- (c) the prepayment is made within the first 3 years after the date of the first disbursement **(not approval)** of the loan proceeds.

The prepayment fee calculation is as follows:

- (a) during the first year after disbursement, 5 percent of the amount of the prepayment;
- (b) during the second year after disbursement, 3 percent of the amount of the prepayment; or
- (c) during the third year after disbursement, 1 percent of the amount of the prepayment.

Lenders are instructed to report and remit all prepayments along with prepayment penalties within 2 business days to Colson Services Corporation's Section 7(a) Loan Payoff Department.

Regardless of the secondary market status of the loans, lenders are to report the prepayment and the prepayment penalty on SBA Form 1502. Please indicate below the "SBA GP Number" that the subject 1502 remittance is for repayment and prepayment penalty. Prepayment penalty amount should be reported on the "Remittance Penalty" section of the 1502. The "prepayment amount" does not include accrued interest. It refers only to the principal amount being prepaid. Further information about 1502 reporting can be found at the end of this Loan Servicing chapter.

**Servicing Fees On Purchased (XGP) Loans:** After SBA purchases a loan, it is known as an XGP Loan. If a lender continues to service an XGP loan, they may deduct a service fee on all regular payments collected and for remitting SBA's share. These payments must be remitted to SBA, Denver, CO 80259-0001 using SBA Form 172 (see Appendix 10-B). Instructions for computing the service fee are included on the 172 Form. The Lender must compute the fee based on SBA's participation in the loan and the number of days of interest collected. However, BE AWARE that a Lender may not collect a servicing fee from principal received (i.e. payments from liquidation proceeds).

## **COLSON 1502 REPORT**

SBA Form 1502 is the form used by lenders each month to report guaranty loan balances, payments, the ongoing 50 basis point fees and status information. This form is mandatory for all lenders who have SBA guaranteed loans outstanding in their portfolios. Colson Services Corp., SBA's Fiscal Transfer Agent ("FTA"), has been designated as the collection agent for guaranty loan balances, status information, payments related to secondary market loans, as well as the ongoing 50 basis point fees.

Colson does not send a manifest of loans for a Lender to report on each month. It is the Lender's responsibility to generate the SBA Form 1502 and forward it to Colson Services Corp., together with all remittances, by the third calendar day of each month (or the next business day if the third is not a business day). The form may be in a hard-copy format. However, **use of electronic media is strongly encouraged**. Funds may also be remitted by wire transfer.

Lenders can use Colson's 1502 template, which is in Excel and Lotus spreadsheet formats. Lenders may remit the 1502 information to Colson on a diskette or via e-mail. The template can be downloaded, at no charge, by accessing the Colson website at [www.colsonservices.com](http://www.colsonservices.com) (select "Program Forms & Resources") or by calling Colson at 877-245-6159.

Complete the report very carefully. PLEASE DOUBLE CHECK YOUR STATUS CODES. IF YOU ACCIDENTLY REPORT A LOAN AS PAID IN FULL, IT IS AUTOMATICALLY DELETED FROM THE SYSTEM AND THE SBA FILE IS SENT TO THE RECORDS CENTER. THIS REQUIRES THAT A LENDER MUST REQUEST REINSTATEMENT OF THE GUARANTY. IT IS EXTREMELY DIFFICULT AND TIME-CONSUMING FOR SBA TO GET A LOAN REINSTATED IF IT HAS BEEN INCORRECTLY REPORTED AS "PAID IN FULL".

Colson's website ([www.colsonservices.com](http://www.colsonservices.com)) contains all the information you need to know about 1502 reporting. It includes field descriptions, FAQs, template instructions, fee calculator, Online User Guide, and much more. You can also contact Colson Customer Service at 877-245-6159.

# APPENDIX 10-A

## LOAN SERVICING REQUEST GUIDELINES FOR THE COMMERCIAL LOAN SERVICING CENTERS

# **LOAN SERVICING REQUEST GUIDELINES**

## **FOR THE**

### **COMMERCIAL LOAN SERVICING CENTERS**

**FRESNO SERVICING CENTER**  
**2719 N. AIR FRESNO DR., STE 107**  
**FRESNO, CA 93727**  
**(559) 487-5650**

**LITTLE ROCK SERVICING CENTER**  
**2120 RIVERFRONT DR., STE 100**  
**LITTLE ROCK, AR 72202**  
**(501) 324-5871, X 303**

These guidelines are highlights from the SBA Standard Operating Procedures (SOP 50 50 4) for Loan Servicing. They are a guide to help lenders (including CDCs) prepare servicing requests to be submitted to the Commercial Loan Servicing Centers (CLSC). Our objective is more efficient and consistent processing of loan servicing actions by lenders, CDCs and SBA to improve responsiveness to our small business customers. Specific questions relating to loan servicing should be directed to the servicing center having the delegated authority to service.

The contents of this booklet are:

- A. The Servicing Request to SBA
- B. Actions Effecting the Loan Collateral
- C. Actions in the Best Interest of the Borrower
- D. Recording and Filing of Liens
- E. Seasoned Loans
- F. Unilateral Authority
- G. Actions that the Lender/ALP-CDC Approve Under Unilateral Authority
- H. PLP/LowDoc/SBAExpress/PCLP Authority
- I. Servicing Formats
- J. For Assistance Please Call



## **A. THE SERVICING REQUEST TO SBA**

### **1. General**

All actions taken on a loan in approval status fall within the policy and procedures in SOP 50 10, "Business Loan Program - Loan Processing."

All actions taken on a loan in regular servicing status fall within the policy and procedures in SOP 50 50 4, "Loan Servicing."

A loan moves from "approval status" to "regular servicing" status when the loan is closed in accordance with the terms and conditions of the Loan Authorization, the final disbursement has been made, and the SBA guaranty fee has been paid.

### **2. Elements of a servicing request**

A clear and concise cover letter drawn from information in the lender internal credit memorandum generally suffices as the servicing request to us. If the cover letter addresses the request and describes the supporting analysis, you do not need to submit additional information. The SBA reserves the right to request additional information as individual circumstances require.

When submitting requests that involve complex credit or collateral issues, it would be beneficial to include the lender internal credit memorandum with the servicing request. If the credit memo includes your analysis of the borrower's financial statements, please do not submit to us a copy of the financial statements. Similarly, if your credit memo describes the collateral analysis and basis for collateral valuation, please do not submit to us copies of appraisals or other documents related to collateral.

In general, servicing requests must address a common set of elements. These elements allow the lender and SBA to quickly understand the request, the status of the SBA loan(s), the condition of the borrower's business and other factors important to the decision. Your servicing request may require all or a portion of the following items:

- a. A statement of the proposed action and a brief description of what makes the request necessary.
- b. Status of the SBA loan (date and amount funded, current balance and status). Identification of obligor.
- c. A summary of the analysis of the business, including analysis of financial statements.

- d. Summary of prior servicing experience with the borrower, e.g., loan modifications and/or problems pertinent to the request.
- e. If applicable, identification of guarantors / co-makers and a statement as to whether their consent has been or will be obtained for the action.
- f. A Summary of the impact/benefit of the action on the business.
  - (1) Will the proposed action address the needs or solve the problems of the business?
  - (2) Will the action protect the interest of the lender/CDC and SBA?
- g. For loans sold in the secondary market, a statement as to whether notification has been or will be given.

### **3. CDC documents**

For SBA 503/504 Development Company Loans, the servicing request must be submitted by the CDC. The CDC's credit memo must address the status of third party loans as well as the status of the development company loan. At the time of the request, the CDC should submit necessary loan modification or collateral documents for signature of the SBA. We will return documents to the CDC for borrower signature and recording as needed. Signed and recorded documents are to be returned to us for placement in the loan file.

## **B. ACTIONS AFFECTING THE LOAN COLLATERAL**

### **1. General**

SBA's policy requires the lender to protect its interest through maintenance of, and responsible control over collateral items pledged to secure the loan. Collateral adjustments should receive a full review of the benefits and risks.

For actions affecting collateral, you must address the following items in addition to those listed above:

- a. Summary of prior collateral actions approved by the lender unilaterally and / or by SBA, and
- b. Summary analysis of collateral before and after the requested change.

### **2. Valuation of collateral**

The lender is responsible for insuring proper valuation of collateral. The following are general SBA guidelines:

- a. Appraisals. A recent appraisal prepared by a qualified appraiser must indicate the fair market value of the collateral. If an appraisal is not available, you must identify the alternative form of valuation (such as net book value, property tax assessment, internal valuation, etc.).
- b. Valuation of Collateral. Generally, you should calculate the net realized value of collateral by applying the following liquidation percentages to the fair market value (if you use alternative liquidation values, please justify):

#### **Real Property:**

Commercial RE. . . . .	75%
Residential RE . . . . .	80%
Unimproved Land. . . . .	50%

#### **Business Assets (net of Depreciation):**

Machinery/Equipment. . . . .	50%
Furniture/Fixtures . . . . .	10%
Accounts Receivable/Inventory. . . . .	20%
Leasehold Improvements . . . . .	05%

### **C. ACTIONS IN THE BEST INTEREST OF THE BORROWER**

1. You should not use abundance of collateral as a reason to approve a servicing request if the action is not in the best interest of the borrower and SBA.
2. Similarly, you should not decline a servicing request if the action is in the best interest of the borrower/SBA when the lack of collateral is the sole reason for the decline.

### **D. RECORDING AND FILING OF LIENS**

#### **1. Lender**

The lender is responsible for preparing and recording documents necessary to perfect the security interest or liens required by the loan agreement and subsequent modifications (either unilateral or with SBA approval).

#### **2. CDC Development Company Loans**

##### **Servicing Actions**

The CDC must prepare the appropriate documents for execution by the SBA. After approval by counsel, we will sign and return to the CDC for recording. The recorded documents are to be returned to us for placement in the loan's collateral file. The CDC must retain a copy as a basis for future modifications if needed.

##### **UCC Continuations**

The CDC must monitor the need to file continuation of UCC filings. Prior to the termination date, the CDC must prepare the continuation, execute on behalf of the SBA and record the continuation. The recorded documents are to be returned to us for placement in the loan's collateral file. The CDC must retain a copy as a basis for future modifications if needed.

##### **Paid in Full Loans**

For 503/504 loans, the Central Servicing Agent provides a letter confirming that the loan has been prepaid. Upon receipt of that letter, the CDC must prepare the required releases for execution by the SBA. We will return the signed documents to the CDC to record as necessary and to return to the borrower

### **E. SEASONED LOANS**

#### **1. General**

The term "seasoned" loan applies to the loan of a borrower that has demonstrated excellent repayment history over a period of time. For this reason, servicing requirements should generally be less stringent for "seasoned" loans. However, you must exercise care to avoid abuse of the classification.

## **2. Definition**

"Seasoned" loans are those which meet the following criteria:

- a. At least four years have lapsed since the loan was funded or, for loans with terms of fewer than seven years, where the original principal has been reduced at least 25 percent.
- b. The loan has been paid as agreed for the last 12 months.
- c. Collateral is at or near "approval" levels, subject to any approved modifications.
- d. The financial statements are favorable.
- e. The account is satisfactory in other respects.

## **F. UNILATERAL AUTHORITY**

### **1. General**

To help streamline delivery of its financial services to small businesses, SBA places increased reliance on its private sector lending partners. Lenders/ALP-CDCs may use their delegated unilateral authority for servicing actions only when the loan is in regular servicing status. (This requirement includes lenders participating in expedited loan programs; e.g., PLP, SBAExpress, LowDoc, etc.)

### **2. Preferences and Limitation on Unilateral Authority**

Lenders/ALP-CDCs have the unilateral authority to make adjustments in the terms and conditions of a loan if SBA does not consider the action to be "substantial" and the action does not confer preference on the lender/ALP-CDC.

Lenders must not use unilateral authority to approve an action that conveys a preference to itself. Preference is a release or subordination of collateral to secure another loan made to the borrowers by the same participant lender.

### **3. Notification to SBA**

The SBA expects the lender/ALP-CDC to perform unilateral servicing actions without concurrence by, or notification to SBA. The lender must retain documentation regarding the action in the

loan file. The exception to the rule is, the lender/ALP-CDC must notify the appropriate field office or commercial loan servicing center in writing when unilateral changes are made that will require the Agency to make changes to the SBA database (interest rate, maturity date, etc.) Changes made via 1502 reporting are not considered SBA notification.

#### **4. Lender Serviced Loans.**

For lender serviced loans, the Code of Federal Regulations (13 CFR 120.513) and the SBA/Lender Loan Guaranty Agreement governs all small business loans that have the guaranty of the SBA. The CFR and the agreement spell out certain actions that a lender may take only upon obtaining prior written approval from SBA.

#### **5. Accredited Lender Program "ALP-CDC" Serviced Loans.**

All CDCs are accountable for the servicing of their loans. At the time of debenture funding, CDCs assign their loans and collateral documents to the SBA. SBA authorizes unilateral authority to ALP-CDCs similar to that of regular 7(a) lenders.

- a. ALP-CDCs have the limitation that they take unilateral authority with the understanding that SBA retains the notes and collateral documents.
- b. SBA requires the ALP-CDC to prepare the legal documents for signature by the SBA at the local SBA field office or service center.
- c. SBA counsel will review the documents for legal sufficiency.

**G. ACTIONS THAT THE LENDER/ALP-CDC MAY  
APPROVE WITH UNILATERAL AUTHORITY**

The following is a listing of allowable unilateral actions Lenders/ALP-CDCs may take without the prior written consent of SBA. This is not all inclusive, but rather a compilation of the most frequently occurring loan servicing actions.

1. **Correct obvious typographical errors** in the Loan Authorization.
2. **Provide pay off figures** to the borrower (The Lender/ALP-CDC is not required to provide or send a copy to SBA).
3. **Modify Financial Statement Requirements**, The Lender/ALP-CDC may:
  - a. Waive audited financial statements, for seasoned borrowers, using prudent credit practices, or change the audit requirement to compilation and/or review where,
    - (1) In the judgement of the Lender/ALP-CDC, the business is not of a size and type to warrant such statements, or
    - (2) The cost would be prohibitive to the borrower.
  - b. Grant waivers for only one year at a time and must reserve the right to reinstate the requirement in the event of loan default.
  - c. Approve changes in financial statement frequency and/or due date requirements, as necessary consistent with prudent lending/credit practices.

**4. Deferment of Principal and/or Interest Payments.**

A deferment is defined as the postponement of scheduled loan payments of principal and/or interest to a later date.

a. Loans **NOT** Sold on the Secondary Market.

For lender serviced loans NOT sold on the Secondary Market, the following applies:

- (1) The Lender may defer payments of principal and/or interest. The principal payment may be deferred to the next month or further (e.g., to the maturity of the note). However, interest continues to accrue even if the payment of interest is deferred. When the next scheduled payment is due, it will be allocated to interest first then to principal. The interest payment is not deferred to the end of the note.
- (2) The amount deferred must not exceed a cumulative total of six months during the life of the loan or a

cumulative value in excess of 20% of the original amount of loan, whichever is less.

- (3) The Lender must retain deferment documentation in the loan file, including current financial statements.

b. Loans Sold on the Secondary Market.

For a loan sold on the Secondary Market, using the SBA Form 1086, "Secondary Participation Guaranty Agreement":

- (1) The Lender may grant a one time deferment of up to 3 consecutive months without written consent of SBA/holder.
- (2) The Lender must promptly notify SBA/holder when the lender takes this action.

c. ALP-CDC Serviced Loans.

The ALP-CDC may approve up to 6 months (cumulative) of payment deferment or 20 percent of the original amount of the loan whichever is less.

- (1) The ALP-CDC may approve a deferment only if the borrower can reasonably project that it will bring current the deferred amount within five years after the deferment period.
- (2) The ALP-CDC must NOT defer development company loan payments until the end of the loan term.
- (3) The ALP-CDC must send notification of the deferment to the SBA servicing office and the Central Servicing Agent.

d. Interest Accrual Notification.

The Lender/ALP-CDC must notify the borrower that interest continues to accrue during any period of the deferment. When payments resume:

- (1) For 7(a) loans, the payments apply first to accrued interest.
- (2) For CDC loans, the payments will be applied to the loan in the following order:
  - (a) Accrued fees;
  - (b) Interest;
  - (c) Principal.

e. Consent of Borrower and Guarantors.



The lender/ALP-CDC must obtain written consent of the borrower, all guarantor(s) and Fiscal Transfer Agent (FTA), as appropriate.

f. Reinstatement of Default.

If a loan was in default when a deferment was approved, and the borrower has not made the first payment by the time the deferment expires, the loan will be reclassified as in default.

**5. Release of collateral.**

The Lender/ALP-CDC may release collateral up to a cumulative value of 20% of the original loan amount. (Total releases of collateral plus subordinations to senior lienholders must not exceed a cumulative value of 20% of the original loan amount over the life of the loan.) The borrower should use proceeds from release of collateral for business purposes. The Lender/ALP-CDC should rarely give favorable consideration to release of business assets in order to provide funds for personal reasons. There must be ample indication that:

- a. The remaining collateral or enhanced repayment ability is reasonable in relation to the outstanding loan balance; and
- b. The release will not materially interfere with the operation of the business or decrease the value of the other collateral securing the loan; or
- c. The action is clearly necessary for the survival of the business, and future repayment from profits are anticipated.

**You must get written consent of all guarantor(s) and advise the SBA servicing office of the release of collateral.**

**6. Substitution of Collateral.** The Lender/ALP-CDC may:

- a. Substitute automotive or other minor equipment (with equal or greater value) taken as partial collateral for the loan.
- b. Substitute equal, or greater equity, in like kinds of collateral, (e.g., exchange of real property excluding the primary real estate for the location of the principal business operation).

**7. Subordination to Senior Liens.**

- a. The Lender/ALP-CDC may permit a no cash out subordination of collateral for refinancing of senior liens if:
  - (1) There is no preference to the participant lender.

- (2) The refinancing is on more favorable terms for the borrower.
- b. The lender/ALC-CDC may permit a cash out subordination of collateral for the refinancing of a senior lien if:
  - (1) There is no preference to the participant lender.
  - (2) Total releases of collateral plus subordinations to senior lienholders must not exceed 20% of the original loan amount over the life of the loan.
  - (3) The Lender/ALP-CDC is responsible for ensuring that this action does not adversely affect the priority of the Lender/ALP-CDC/SBA lien.
- c. For development company third party loans (e.g., first lien holder), the ALP-CDC must ensure that the term of the refinanced third party loan equals or exceeds the term of the original third party loan. The participating third party loan must not be replaced by a loan under a Federally funded program (e.g., an SBA 7(a) guaranteed lender loan).

**8. Changes to life insurance or hazard insurance requirements**

- a. The Lender/ALP-CDC may make changes to life insurance or hazard insurance requirements in accordance with the Lender's own standard practice.
- b. On current loans, the Lender/ALP-CDC may release insurance proceeds for the repair or replacement of damaged collateral.
- c. Cash surrender value of life insurance may be released, subject to the restriction noted in this section in the earlier sub-paragraph 13.e. "Release of collateral".
- d. The Lender/ALP-CDC may NOT make any changes to Federal flood insurance coverage that is in effect, or might become applicable, without obtaining the prior written consent of SBA.

**9. Adjustments to the installment amount.**

- a. The lender may adjust the installment amount to allow for correct amortization of the balance as a result of interest rate changes or anticipated balloon balances. You may make this adjustment only upon written consent of the borrower, all guarantors, and the secondary participant, if any.

**NOTE:** This provision does not affect variable interest rate loans which already have the provision to increase or decrease the payment amount, to an amount necessary to amortize the principal remaining unpaid after any

scheduled interest rate change under the terms of the note.

- b. An ALP-CDC must not make any adjustment to the installment amount for a development company loan. However, the ALP-CDC may approve such an adjustment for the participating third party loan.

**10. Make loans to the borrower, which do not affect the collateral.**

The Lender/ALP-CDC may make loans to the borrower which do not affect the collateral lien position supporting the SBA guaranteed loan. This includes purchase money loans for business assets and loans subordinate to the SBA guaranteed loan.

**11. Assumptions/Approve a Borrower's Change in Form of Organization.**

- a. The Lender/ALP-CDC may authorize the assumption of an SBA loan when a borrower changes its form of organization, provided there is:
  - (1) No release or subordination of existing collateral;
  - (2) No release of original obligor(s) or guarantor(s) (no change in ownership or management); and
  - (3) No decrease in equity position of the business as a consequence of the assumption
  - (4) The Lender/ALP-CDC must ensure that the guarantee of the original borrower and guarantors are maintained.
  - (5) For CDC loans, the ALP-CDC must notify the CSA of the change and provide required tax identification information.

**12. Adjustments to Management Covenants.**

The Lender/ALP-CDC may, using prudent credit practices, approve adjustments to management covenants (e.g., limitations on compensation, fixed assets, working capital maintenance levels, lease liabilities or dividend payment) if the loan:

- a. Is seasoned;
- b. Has not been extended or deferred within the 24 months before the date of the adjustment request; and
- c. Reflects that repayment ability/cash flow exists for all debt including the SBA guaranteed loan after the adjustments to the management covenants have been made.

**13. Accept Prepayments.**

- a. For lender serviced loans, the Lender may accept partial or full prepayments of the loan account. For loans approved by SBA after February 14, 1985 and sold on the secondary market, the **lender must give 10 business days advance notice to the secondary holder or FTA of any intended prepayment of the note. Refer to SBA Form 1086 for further details.**
- b. For development company loans, the ALP-CDC may approve the partial or full prepayment of the participating third party loan.

## **H. PLP/LowDoc/SBAExpress/PCLP AUTHORITY**

### **1. General**

PLP/LowDoc/SBAExpress/PCLP lenders must service all SBA guaranteed loans in their portfolio in the same manner that they service the non-guaranteed loans in their portfolios. The policies and procedures used for loan servicing must be based on prudent and responsible lending practices. Under this authority, the PLP lender is authorized to take all necessary loan servicing actions without a requirement for SBA approval, except:

### **2. Actions Excluded From Unilateral Authority**

- a. Any action that would create a conflict of interest or confer any preference on the lender in collection or lien position with respect to SBA's position or the shared SBA/lender position on the guaranteed loan.
- b. Compromise with any obligor of the principal loan balance outstanding for less than the full amount due. Accrued interest can be adjusted by the lender, if justified, without prior SBA approval.
- c. If a loan is delinquent or liquidation is contemplated or underway, prior SBA approval is required to release a guarantor for less than the principal balance owed even if actual demand has not yet been made on the guarantor.
- d. Acquisition of title to environmentally impaired property (property which exceeds the minimum action levels established by relevant regulatory agencies).
- e. Transfer of a loan to another lender.
- f. Sell or Pledge more than 90% of a loan.

## **I.      SERVICING FORMATS**

On the following pages are example "formats" which may be used by the lender in preparing the Collateral Analysis or Financial Statement Analysis as a part of the credit memo to be submitted to SBA. These formats are presented as examples of the analysis that may be incorporated into the lender's credit memo. It is not necessary to reproduce the formats.

Depending upon the type of servicing action, form of organization for the borrower, and the financial strength of the borrower and affiliates, the types of information that you will need to review and comment on may include the following:

1.    Business Financial Statements and/or Federal Tax Returns,
2.    Copy of Corporate Charter or Partnership Agreement,
3.    Certificate of Good Standing,
4.    Copy of Resolution Authorizing the proposed Transaction,
5.    Credit Report(s),
6.    Statement of Personal History (SBA Form 912),
7.    Personal Financial Statement(s) for Borrowers, guarantors and major stockholders (SBA Form 413, 770 or similar form),
8.    Personal Financial Statements and/or Federal Tax Returns,
9.    Real Estate Appraisal(s) or Other Documentation to Support Valuation,
10.   Escrow Instructions,
11.   Copy of Buy/Sell Agreement,
12.   Copy of Seller Carry-back Note, and
13.   Any other document that is necessary and appropriate to protect the interest of the lender and SBA.

**J. FOR ASSISTANCE PLEASE CALL**

The Lender should direct specific questions relating to loan servicing to the SBA field office or servicing center having the delegated authority to service the loan.

**FRESNO SERVICING CENTER**  
**2719 N. AIR FRESNO DR., STE 107**  
**FRESNO, CA 93727**  
**(559) 487-5650**  
**FAX (559) 487-5803**

**LITTLE ROCK SERVICING CENTER**  
**2120 RIVERFRONT DR., STE 100**  
**LITTLE ROCK, AR 72202**  
**(501) 324-5871, X 303**  
**FAX (501) 324-6072**

Revised April 12, 2000

# APPENDIX 10-B

## SBA FORM 172 TRANSACTION REPORT ON LOAN SERVICED BY LENDER





# SMALL BUSINESS ADMINISTRATION TRANSACTION REPORT ON LOAN SERVICED BY LENDER

<b>1. Mail To:</b>  <b>SMALL BUSINESS ADMINISTRATION DENVER, CO 80259</b>		<b>2. Lender's Name and Address</b>  																									
<b>3. Loan Number</b>  		<b>4. Borrower's Name</b>  																									
<b>5. Interest Rates</b>  SBA _____ Lender _____		<b>6. Percent Shares</b>  SBA _____ Lender _____																									
<b>7. Date Repayment Received</b>  		<b>8. Installment Due Date Paid</b>  																									
<b>9. Interest Period Paid</b> From: _____ To: _____		<b>10. No. of Days Interest</b> _____																									
<table style="width: 100%; border-collapse: collapse;"><thead><tr><th style="text-align: left; width: 35%;"><b>11. Application of Repayment:</b></th><th style="text-align: center; width: 15%;"><u><b>TOTAL</b></u></th><th style="text-align: center; width: 25%;"><u><b>LENDER SHARE</b></u></th><th style="text-align: center; width: 25%;"><u><b>SBA SHARE</b></u></th></tr></thead><tbody><tr><td>Repayment Amount .....</td><td>\$ _____</td><td>\$ _____</td><td>\$ _____</td></tr><tr><td>a. To Interest .....</td><td>\$ _____</td><td>\$ _____</td><td>\$ _____</td></tr><tr><td>b. To Principal .....</td><td>\$ _____</td><td>\$ _____</td><td>\$ _____</td></tr><tr><td>c. Less: Service Fee * .....</td><td></td><td></td><td>\$ _____</td></tr><tr><td>d. Amount Remitted to SBA .....</td><td></td><td></td><td>\$ _____</td></tr></tbody></table> <p style="margin-top: 10px;">* Compute Service Fee as follows: Multiply SBA's Share of Beginning Principal Balance by: (Number of Days Interest times Daily Factor). Daily Factor = <b>.0000068</b> if SBA's Percent Share <b>Exceeds 75%</b> Daily Factor = <b>.0000103</b> if SBA's Percent Share is <b>75% or less.</b></p>				<b>11. Application of Repayment:</b>	<u><b>TOTAL</b></u>	<u><b>LENDER SHARE</b></u>	<u><b>SBA SHARE</b></u>	Repayment Amount .....	\$ _____	\$ _____	\$ _____	a. To Interest .....	\$ _____	\$ _____	\$ _____	b. To Principal .....	\$ _____	\$ _____	\$ _____	c. Less: Service Fee * .....			\$ _____	d. Amount Remitted to SBA .....			\$ _____
<b>11. Application of Repayment:</b>	<u><b>TOTAL</b></u>	<u><b>LENDER SHARE</b></u>	<u><b>SBA SHARE</b></u>																								
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<b>12. Principal Loan Balance:</b>	<u><b>TOTAL</b></u>	<u><b>LENDER SHARE</b></u>	<u><b>SBA SHARE</b></u>																								
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c. Less Repayments/Credits	\$ _____	\$ _____	\$ _____																								
d. Ending Balance This Report	\$ _____	\$ _____	\$ _____																								
<b>13. Comments:</b>  		<b>14. ----- OFO USE ONLY -----</b>  T/C _____ Offline Code _____ Next Due Date _____																									
<b>15. Signature and Title</b>  		<b>16. Telephone No.</b>  																									
<b>17. Report Date</b>  																											

PLEASE NOTE: The estimated burden hours for the completion of this form is 10 minutes per response. If you have any questions or comments concerning this estimate or any other aspect of this information collection please contact, Chief, Administrative Information Branch, U.S. Small Business Administration, 409 3rd St., S. W. Washington, D.C. 20416 and OMB Clearance Officer, Paperwork Reduction Project (3245-0131), Office of Management and Budget, Washington, D.C. 20503.

**SBA FORM 172 (4-93) REF.: SOP 20 23 PREVIOUS EDITIONS OBSOLETE**

